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RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0796
RHMFSS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 0064
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 000641

SIPDIS

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NEA/ELA

TREASURY FOR GLASER/SZUBIN/LEBENSON
NSC FOR ABRAMS/DORAN/SINGH
EB/ESC/TFS FOR SALOOM

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TAGS: ECON EINV ETRD SY

SUBJECT: SARG PROCLAIMS 2005 TO BE YEAR OF INVESTMENT

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1B. 05 DAMASCUS 5609

1C. 05 DAMASCUS 5909

1D. DAMASCUS 0005

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

11. (C) Summary: Though Syrian officials and the government-controlled press have dubbed 2005 the &year of investment in Syria,⁸ SARG investment figures are generally highly exaggerated and the profit-making potential of approved projects remain largely unrealized. Recent investment in Syria falls into one of three broad categories: Gulf and regional investment; &Eastern⁸ investment from China, Russia, and India; and European private investment and public development assistance. Of the three, the USG has been most effective in influencing projects financed by the European Investment Bank (EIB). The SARG has used its investment hype to counter its international isolation, but unless the USG can make some progress in encouraging change in the official policy of support by the governments of Russia, China, and India, it is unlikely that turning off EIB-funded development assistance projects alone will have much effect on SARG policies. End summary.

SARG CALLS 2005 &YEAR OF INVESTMENT IN SYRIA⁸

12. (SBU) The SARG proclaimed 2005 to be the &year of investment,⁸ heralding recent high-profile foreign direct investment (FDI) and has utilized several tactics to illustrate that it has avoided international economic isolation and maintains foreign support. For example, since the summer of 2005, Syria's state-controlled media have run a steady stream of front-page stories, stating that the Syrian economy has attracted billions of dollars of FDI from Arab sources. Additionally, Deputy Prime Minister Abdullah Dardari has made high-profile trips regionally and internationally announcing new SARG initiatives to liberalize its economy and expand its &trade diplomacy⁸ with other countries (reftels A, B, C). Lastly, the SARG continues to publicize proposed Russian, Chinese, Indian, and European private investment or progress on development projects in an attempt to imply that the USG is alone in its policy stance

toward Syria.

¶13. (SBU) In 2005, the Syrian press announced several Gulf development projects, including a \$15 billion USD tourist resort on Jebel as-Sheikh funded by Kuwaiti, Saudi, and Emirati investors; a \$4 billion USD financial and commercial center financed by Kuwaiti-based Aref Group; a \$3.4 billion retail and residential housing complex by Dubai-based Imaar Group; and a \$1 billion tourist complex funded by Dubai-based Majid al-Futtaim (reftel D). Additionally, the Syrian media have trumpeted three Russian Stroytransgaz projects in December) a proposed \$2.7 billion USD, 140,000 bpd petroleum refinery in Deir ez-Zour, a \$210 million USD, gas processing plant near Palmyra, and a \$300 million USD natural gas pipeline project from the Syrian-Jordanian border to Homs. The Chinese government signed an MOU with the Syrians in September 2005 for the construction of a 70,000 bpd oil refinery in Deir ez-Zour worth \$1 billion USD, whereas India,s state-owned ONGC recently invested \$573 million USD along with China,s National Petroleum Company to buy Petro-Canada,s interests in a joint venture with the Syrian Petroleum Company (SPC). Furthermore, Syrian press continues to report on European private investment, including \$1 billion USD in German projects. Lastly, the SARG has also heavily publicized European Investment Bank loans, including a 200 million Euro electricity project and a three-year, 100 million Euro telecommunications loan to expand fixed line telephone networks throughout the country.

REGIONAL INVESTMENT: MORE FICTION THAN FACT

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¶14. (C) Though Gulf investors, awash in petro-dollars from continued high oil prices, reportedly see Syria as a potential investment opportunity, Arab investors have shown

most interest in Syria,s underdeveloped real estate and tourism market. Despite SARG announcements that several multi-billion dollar Gulf investment projects have been approved, contacts tell us the projects have been slow to move beyond the planning phase and are skeptical whether the projects will actually be implemented. The attorney representing Dubai-based Imaar Group told us that the company,s project is still "under negotiation" with the SARG and that he cannot estimate when major financial commitments will be made. Also, Dr. Moustafa Alkafry, Director of the Syria Investment Office, freely admitted that bureaucratic and administrative delays have hampered progress on the multi-billion dollar Gulf investments.

¶15. (C) Diplomats from the Kuwaiti, Saudi, and Turkish Embassies believe that the Syrian market is generally unattractive for investors and do not actively promote investesQnt from their respective countries in Syria. Saudi Economic Officer Mounir Sendi said the best and most successful example of Saudi investment to date is the newly opened Four Seasons hotel, which took seven years to complete despite high-level support from the late Syrian President Hafez al Asad and Saudi Prince Walid bin Talal. Sami Zamanan from the Kuwaiti Embassy, who characterized recently publicized Kuwaiti FDI as exaggerated, wondered aloud why the SARG believes its efforts to attract Kuwaiti investment would succeed when it has stolen billions of dollars of prior investments.

THE SARG & LOOKS EAST8 FOR POTENTIAL FDI

¶16. (SBU) In the past few months, the SARG has increasingly

looked to the east for new investment funds. A substantive amount of the new FDI the SARG has announced, primarily in oil and gas, comes from state-owned Indian, Chinese, and Russian companies. Though Alkafry says that the actual amount of investment from the East is small and that the SARG is looking to attract FDI from Europe and Turkey, European interlocutors have stated that the SARG is looking east to prove that it is not economically dependent on the West.

¶17. (C) In early December the SARG awarded tenders to Stroytransgaz to build the first half (194 miles) of Syria's portion of the Arab gas pipeline, as well as to build a gas processing plant near Palmyra. Additionally, Russia and Syria signed an MOU to build a 140,000 bpd refinery in central Syria. Press reports have indicated that Stroytransgaz needs to submit a feasibility study for the refinery project, and according to Oleg Kostenov, Deputy Trade Representative from the Russian Embassy, no concrete timetable is in place for its construction. Kostenov also said that Stroytransgaz's gas pipeline project will be implemented within the next year and a half. Other contacts have pointed out that construction of the gas processing plant would be a first for the Russian company. Despite the fact that the recent projects are in their embryonic stages, Kostenov advocated strongly for successful Russian-Syrian economic cooperation in the upcoming years.

¶18. (C) State-owned Chinese and Indian companies are also eyeing investment opportunities in Syria. SINOHYDRDRO reportedly signed an MOU in October Q5 with the SARG for a \$200 million USD joint-venture to construct a cement factory. Though the Chinese have also signed an MOU for a reported \$1 billion USD oil refinery, Chinese Economic Officer Fu Haiying admits that no contract has been signed. Haiying also told us that other Chinese state-owned companies have expressed interest in exploring possible investments in the electricity and telecommunications sectors. In addition to press reports, we have heard about new joint ventures with Chinese companies from Syrian businessmen in nearly every sector. One Canadian contact told us that private Chinese companies are aggressively competing in the Syrian market and that they

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are beating out Canadian business propositions because they are more cost-effective. V.J. Ghosh from the Indian Embassy characterized ONGC's recent investment of \$573 million USD with China's National Petroleum Company as "just business," and not indicative of his government's approval of the Syrian regime's policies. Ghosh stated that the GOI wants to continue to be able to pursue profitable ventures like those in Syria's oil and gas sector.

SARG USES INVESTMENT FROM THE WEST TO BOOST ITS IMAGE

¶19. (C) In the past six months, the SARG has attempted to portray strong and resilient economic ties to the West despite international political pressure, in part by trumpeting European private investment and public development assistance funded through the European Investment Bank. For example, in early February, the Syrian press reported that British EDF Man is pursuing a joint venture to establish a sugar refinery worth \$70 million USD. British diplomatic contacts, however, are highly skeptical that EDF Man would actually commit financial resources to the project, having lost a considerable investment in a failed silo construction project in Lattakia several years ago. Additionally, in November, D/PM Dardari heralded several alleged German investments, including a 375 million Euro, 330-megawat wind power generation project and a cement plant on the Syrian-Iraqi border. A German Embassy contact stated that the articles are misleading, however, as all German companies who come to Syria to discuss potential investment opportunities are immediately asked to sign an MOU with the SARG before discussions even commence.

¶10. (SBU) In the past months, the Syrian press has also published articles focusing on EIB loans, highlighting progress made in the construction of the Deir Ali Power Plant and the Tartous Port. It has also reported widely on the 100 million Euro loan to expand Syrians, access to telecommunication lines. Contacts from the European Commission admit that though the SARG can and often does spin such press articles to its political advantage, they believe that the EIB loans) often planned years before their implementation - facilitate humanitarian projects and should not be equated with political support of the SARG. They argue that EIB-funded initiatives, such as a recently delayed 50 million Euro (reftel) water and sanitation project that would benefit up to half a million Syrians and Palestinians, directly benefit vulnerable populations and thus should continue despite the political situation.

11.(C) Comment: The SARG,s campaign to hype foreign investment has been largely successful inside Syria due to the increasing level and intensity of press statements on FDI in the local and regional media. Though a large number of FDI projects are approved, few are implemented, thus the benefits Syrians have reaped from FDI in the past are minimal. Still, an increasing number of Syrian businessmen are repeating the SARG,s hype and making business decisions accordingly. Subsequently, the SARG,s campaign to inflate FDI figures has resulted in an increase in the confidence level of the business community toward the SARG and its ability to weather the current international political storm.

In comparing the multi-billion dollar projects awarded to high-profile, state-owned Russian, Indian, and Chinese companies with the discrete EIB-funded development assistance projects, the effectiveness of turning off the latter without affecting the former is questionable. The SARG,s use of economics to subvert its political isolation will persist as long as Russian, Chinese, and Indian state-owned companies continue to pursue high-profile investments and Gulf companies continue to trumpet multi-billion dollar investments in the country.

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